

C. DUKES SCOTT
EXECUTIVE DIRECTOR

1401 Main Street, Suite 900
Columbia, SC 29201



DAN EARNETT
CHIEF OF STAFF

Phone: (803) 737-0800
Fax: (803) 737-0977

JAY R. JASHINSKY, CPA
DIRECTOR OF AUDITING

September 1, 2010

VIA ELECTRONIC MAIL

Jocelyn G. Boyd, Esquire
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
Columbia, SC 29210

VIA ELECTRONIC MAIL AND U. S. MAIL

K. Chad Burgess, Esquire
Senior Counsel
South Carolina Electric and Gas Company
220 Operation Way – MC C222
Cayce, South Carolina 29033-3701

Re: Report of the South Carolina Office of Regulatory Staff's Examination of South Carolina Electric and Gas Company's Monitoring Report under the Natural Gas Rate Stabilization Act for the Twelve-Month Period Ending March 31, 2010

Docket No. 2010-6-G

Counselors:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq. (Supp. 2009), ("RSA" or the "Act"), conducted an examination of South Carolina Electric and Gas Company's ("SCE&G" or the "Company") Monitoring Report for the twelve-month period ended March 31, 2010. The examination was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2010 Quarterly Monitoring Report an As Adjusted rate of return and return on common equity of 9.62% and 12.92%, respectively. The Company's

calculation of the decrease in revenue required to restore return on common equity to the 10.25% level authorized in its most recent rate case (Order No. 2005-619 issued in Docket No. 2005-113-G on October 31, 2005) was (\$10,094,457).

Based upon its examination, ORS is proposing certain adjustments (see Schedule 2) to bring the Company's Monitoring Report into conformance with Section 58-5-430 and Section 58-5-440 of the Act. As a result of these accounting and pro forma adjustments, ORS calculated the Company's rate of return and return on common equity as 9.66% and 12.99%, respectively

Therefore, in accordance with the guidelines of the Act, ORS agrees that the Company must decrease its rates sufficiently to lower its return on common equity to 10.25%, as authorized in Order No. 2006-553. Accordingly, ORS recommends that the Company's request be decreased (\$290,801) resulting in a decrease to revenues of (\$10,385,258). After the proposed decrease, the Company will have the opportunity to earn a rate of return and return on common equity of 8.20% and 10.25%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	Approved Return on Equity
10-31-2005	2005-113-G	\$28,482,731	\$22,857,839	10.25%
09-27-2006	2006-157-G	\$18,175,727	\$17,437,394	10.25%
10-12-2007	2006-157-G	\$6,868,824	\$4,555,622	10.25%
10-14-2008	2006-157-G	\$4,735,547	\$3,721,724	10.25%
10-13-2009	2009-6-G	\$13,355,010	\$13,007,004	10.25%

The following is a description of Schedules prepared by ORS as a result of its examination of the Company's filing:

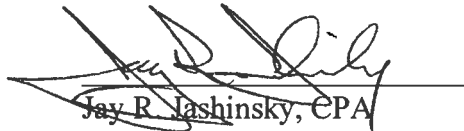
Schedule 1 presents the Company's operating experience, rate base and rates of return for the year ended March 31, 2010, and the accounting and pro forma adjustments which ORS has determined are necessary to normalize the Company's operations both before and after the effect of the requested increase. Utilizing the per book rate base of \$442,918,750 and income of \$39,486,906, a rate of return was calculated on per book operations of 8.92% with a corresponding return on common equity of 11.60%. ORS accounting and pro forma adjustments increased Net Income for Return to \$42,701,851 and decreased rate base to \$441,875,652. A rate of return of 9.66% and a return on common equity of 12.99% were computed by ORS. After the adjustments for the proposed margin decrease of (\$10,385,258), Net Income for Return decreased to \$36,233,773. The rate of return on rate base computed by ORS after the adjustments for the proposed decrease is 8.20%. The return on common equity is 10.25%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

Schedule 3 presents the calculation of the weighted average cost of capital used by the Company in calculating its return on common equity both before and after its proposed decrease. The rate base, as shown on Schedule 1, is allocated between long term debt, preferred stock and common equity according to the respective ratios as computed using the Company's capital structure as of March 31, 2010. The amount of total income for return necessary to cover an embedded cost rate of 5.86% on long term debt is computed to be \$12,076,921. The remainder of the total income for return of \$30,624,930 is income to common equity. Such remainder produced a return of 12.99% on common equity before the requested decrease. The overall cost of capital after accounting and pro forma adjustments, but prior to the requested increase, is 9.66%. Such overall cost equals the rate of return on rate base shown on Schedule 1.

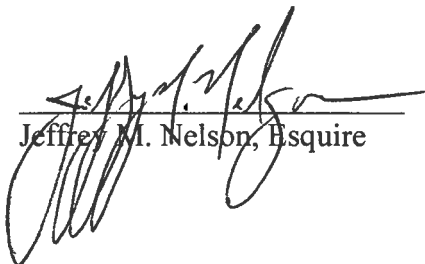
After the proposed decrease of (\$10,385,258), income available to common equity decreases to \$24,156,852 and return on common equity decreases to 10.25%. Overall cost of capital as detailed in Schedule 3 equals 8.20%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,



Jay R. Jashinsky, CPA

- and -



Jeffrey M. Nelson, Esquire

South Carolina Electric & Gas Company
Operating Experience - Total Gas
For the Test Year Ended March 31, 2010

Description	Per Regulatory Books	ORS Accounting & Pro Forma Adjustments	As Adjusted	Proposed Increase (Decrease)	Total After Proposed Increase (Decrease)
<u>Operating Revenues</u>	\$ 445,426,263	\$ 4,399,846 (A)	\$ 449,826,109	\$ (10,385,258) (M)	\$ 439,440,851
<u>Operating Expenses:</u>					
O&M Expenses - Cost of Gas	291,250,710		291,250,710		291,250,710
O&M Expenses - Other	61,674,108	(748,665) (B)	60,925,443		60,925,443
Dep. & Amort. Expenses	21,895,499	511,246 (C)	22,406,745		22,406,745
Taxes Other Than Income	17,160,515	971,137 (D)	18,131,652	(50,576) (N)	18,081,076
State Income Taxes	1,141,594	(1,228,430) (E)	(86,836)	(516,734) (O)	(603,570)
Federal Income Taxes	13,189,485	1,722,564 (F)	14,912,049	(3,436,282) (P)	11,475,767
<u>Total Operating Expenses</u>	406,311,911	1,227,852	407,539,763	(4,003,592)	403,536,171
<u>Total Operating Income</u>	39,114,352	3,171,994	42,286,346	(6,381,666)	35,904,680
Customer Growth	529,589	42,951 (G)	572,540	(86,412) (Q)	486,128
Interest on Customer Deposits	(157,035)	-	(157,035)		(157,035)
<u>Net Income for Return</u>	39,486,906	3,214,945	42,701,851	(6,468,078)	36,233,773
<u>Rate Base:</u>					
Gross Plant in Service	787,836,815	(56,042) (H)	787,780,773		787,780,773
Reserve for Depreciation	(311,986,084)	(132,830) (I)	(312,118,914)		(312,118,914)
Net Plant in Service	475,850,731	(188,872)	475,661,859		475,661,859
Construction Work in Process	10,555,901	(712,117) (J)	9,843,784		9,843,784
Accum. Deferred Income Taxes	(82,327,935)		(82,327,935)		(82,327,935)
Environmental Costs	6,378,131		6,378,131		6,378,131
OPEB's	(11,196,466)	(48,526) (K)	(11,244,992)		(11,244,992)
Reg. Asset for Unrcvrd PAP	481,239		481,239		481,239
Injuries & Damages	(477,666)		(477,666)		(477,666)
Materials & Supplies	38,268,110		38,268,110		38,268,110
Total Working Capital	7,709,264	(93,583) (L)	7,615,681		7,615,681
Prepayments	11,614,396		11,614,396		11,614,396
Average Tax Accruals	(7,229,094)		(7,229,094)		(7,229,094)
Customer Deposits	(6,707,861)		(6,707,861)		(6,707,861)
<u>Total Rate Base</u>	442,918,750	(1,043,098)	441,875,652	-	441,875,652
<u>Rate of Return</u>	8.92%		9.66%		8.20%
<u>Return on Common Equity</u>	11.60%		12.99%		10.25%

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2010

<u>Description</u>		<u>Per SCE&G</u>	<u>Per ORS</u>
(A)	<u>Operating Revenues</u>		
1	To annualize revenues for lateral transfers from contract rates to published tariff rates	\$ 233,091	\$ 233,091
2	To adjust annualized approved revenue increase for 2009 RSA proceeding. Order No. 2009-723.	4,166,755	4,166,755
	<u>Total Operating Revenues</u>	\$ 4,399,846	\$ 4,399,846
(B)	<u>Operating and Maintenance Expense</u>		
3	To annualize wages and benefits	\$ 263,248	\$ 263,248
4	To remove 50% of employee & officer bonuses	(1,170,556)	(1,170,556)
5	To annualize other post employment benefits	78,585	78,585
6	To remove operating expenses related to employee clubs	(74,322)	(74,322)
7	To adjust for Customer Awareness Campaign expenses	141,342	141,342
8	To record adjustment for Pension and Health Care expenses	(82,118)	(82,118)
9	To annualize Insurance Expense	19,927	19,927
10	To remove Pension Income	359,971	359,971
11	To remove non-allowable expenses for ratemaking purposes	-	(284,742)
	<u>Total Operating and Maintenance Expense</u>	\$ (463,923)	\$ (748,665)
(C)	<u>Depreciation and Amortization Expense</u>		
12	To remove depreciation expense related to employee clubs	\$ (15,849)	\$ (15,849)
13	To annualize depreciation	184,496	184,496
14	To annualize effect of the 2009 depreciation study	342,599	342,599
	<u>Total Depreciation and Amortization Expense</u>	\$ 511,246	\$ 511,246
(D)	<u>Taxes Other Than Income</u>		
15	To adjust taxes related to Lateral Customer Revenue adjustment for tariff rates	\$ 1,154	\$ 1,135
16	To annualize payroll taxes for wages and benefits	18,678	18,678
17	To remove 50% of payroll taxes related to employee & officer bonuses	(75,845)	(75,845)
18	To annualize property tax expense	1,006,877	1,006,877
19	To adjust taxes for the annualized approved revenue increase from 2009 RSA proceeding. Order No. 2009-723.	20,625	20,292
	<u>Total Taxes Other Than Income</u>	\$ 971,489	\$ 971,137

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2010

<u>Description</u>		<u>Per SCE&G</u>	<u>Per ORS</u>
(E)	<u>State Income Taxes:</u>		
20	To adjust state income taxes (rate of 5%) to reflect the impact on income for adjustments to operating revenues and expenses	\$ (1,242,731)	\$ (1,228,430)
	<u>Total State Income Taxes:</u>	<u>\$ (1,242,731)</u>	<u>\$ (1,228,430)</u>
(F)	<u>Federal Income Taxes</u>		
21	To adjust federal income taxes (rate of 35%) to reflect the impact on income for adjustments to operating revenues and expenses	\$ 1,627,990	\$ 1,722,564
	<u>Total Federal Income Taxes:</u>	<u>\$ 1,627,990</u>	<u>\$ 1,722,564</u>
(G)	<u>Customer Growth</u>		
22	To adjust customer growth for accounting and pro forma adjustments	\$ 40,561	\$ 42,951
	<u>Total Customer Growth</u>	<u>\$ 40,561</u>	<u>\$ 42,951</u>
(H)	<u>Plant in Service</u>		
23	To remove employee clubs	\$ (530,363)	\$ (530,363)
24	To recognize property retirements	(237,796)	(237,796)
25	To recognize property additions and adjustments to Plant In Service	712,117	712,117
	<u>Total Plant in Service</u>	<u>\$ (56,042)</u>	<u>\$ (56,042)</u>
(I)	<u>Accumulated Depreciation</u>		
26	To remove employee clubs	\$ 156,469	\$ 156,469
27	To recognize property retirements	237,796	237,796
28	To annualize depreciation	(184,496)	(184,496)
29	To annualize effect of 2009 depreciation study	(342,599)	(342,599)
	<u>Total Accumulated Depreciation</u>	<u>\$ (132,830)</u>	<u>\$ (132,830)</u>
(J)	<u>CWIP</u>		
30	To decrease CWIP for property additions closed to plant in service	(712,117)	(712,117)
	<u>Total CWIP</u>	<u>\$ (712,117)</u>	<u>\$ (712,117)</u>
(K)	<u>Deferred Debits/Credits</u>		
31	To annualize other post employment benefits	\$ (48,526)	\$ (48,526)
	<u>Total Deferred Debits/Credits</u>	<u>\$ (48,526)</u>	<u>\$ (48,526)</u>

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2010

<u>Description</u>		<u>Per SCE&G</u>	<u>Per ORS</u>
(L)	<u>Working Capital</u>		
32	To adjust cash working capital	\$ (57,990)	\$ (93,583)
	<u>Total Working Capital</u>	<u>\$ (57,990)</u>	<u>\$ (93,583)</u>
(M)	<u>Operating Revenues for Proposed Increase</u>		
33	To adjust revenues for the proposed increase	\$ (10,094,457)	\$ (10,385,258)
	<u>Total for Proposed Increase</u>	<u>\$ (10,094,457)</u>	<u>\$ (10,385,258)</u>
(N)	<u>Taxes Other Than Income</u>		
34	To adjust gross receipts tax for the proposed increase	\$ (49,968)	\$ (50,576)
	<u>Total Taxes Other Than Income</u>	<u>\$ (49,968)</u>	<u>\$ (50,576)</u>
(O)	<u>State Income Taxes for Proposed Increase</u>		
35	To adjust state income taxes (rate of 5%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ (502,224)	\$ (516,734)
	<u>Total State Taxes for Proposed Increase</u>	<u>\$ (502,224)</u>	<u>\$ (516,734)</u>
(P)	<u>Federal Income Tax for Proposed Increase</u>		
36	To adjust federal income taxes (rate of 35%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ (3,339,726)	\$ (3,436,282)
	<u>Total Federal Income Tax for Proposed Increase</u>	<u>\$ (3,339,726)</u>	<u>\$ (3,436,282)</u>
(Q)	<u>Customer Growth</u>		
37	To adjust customer growth for adjustments to operating revenues and expenses related to the proposed increase	\$ (83,979)	\$ (86,412)
	<u>Total Customer Growth for Proposed Increase</u>	<u>\$ (83,979)</u>	<u>\$ (86,412)</u>

South Carolina Electric & Gas Company
Weighted Cost of Capital
As of March 31, 2010

Description	Capital Structure	Ratio	Regulatory Per Books				As Adjusted				After Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 2,865,425,000	46.64%	\$ 206,577,305	5.86%	2.73%	\$ 12,105,430	\$ 206,090,804	5.86%	2.73%	\$ 12,076,921	\$ 206,090,804	5.86%	2.73%	\$ 12,076,921
Common Equity	3,277,670,526	53.36%	236,341,445	11.60%	6.19%	27,381,476	235,784,848	12.99%	6.93%	30,624,930	235,784,848	10.25%	5.47%	24,156,852
Totals	\$ 6,143,095,526	100.00%	\$ 442,918,750		8.92%	\$ 39,486,906	\$ 441,875,652		9.66%	\$ 42,701,851	\$ 441,875,652		8.20%	\$ 36,233,773